The Houston Business-Cycle Index decelerated to a 4.4 percent growth rate in November, implying a slowing expansion in the region. Energy-related activities, construction and international trade continue to propel growth. Regulatory uncertainty, the U.S. fiscal situation and stresses in the global economy cloud the horizon, but area industry fundamentals are firmer than they were in much of 2012.

Oil prices were mixed in December but remain relatively volatile. Continued pipeline bottlenecks in Cushing, Okla., are keeping the price of WTI low compared with Brent, although the average price difference fell to $21.70 in December. Natural gas prices ticked up slightly from November to $3.41 per Mcf. Fuel prices fell, due in part to seasonal factors and lower input costs. Diesel inventories remain relatively low, while the opposite is true for gasoline and jet fuel stocks. Jet fuel seasonal inventory is near a 10-year high.

2012 is shaping up to be a banner year for Houston employment growth. Although it slowed in November, monthly employment growth averaged 3.7 percent over the year. Construction, health care, and leisure and hospitality continued to lead growth in November.

The Houston unemployment rate fell three-tenths of a percent to 6 percent in November as the local labor force declined slightly. The U.S. rate fell to 7.8 percent. The Conference Board Help Wanted OnLine index for Houston indicated that the number of job advertisements in the area jumped 7 percent in December.
The average weekly U.S. rig count continued to decline, down 25 rigs to 1,784 in December, entirely on lower oil-directed drilling. High oil and low natural gas prices have kept more than 76 percent of total rigs seeking oil. Oil price volatility continues to be a concern, but with prices well above $85 globally, international activity remains sound. The Eagle Ford continues to see a pullback in rig counts on low natural gas and natural gas liquids prices, and the consensus among industry contacts seems to be that without much-colder weather, it is unlikely that natural gas and natural gas liquids inventories will fall significantly in the immediate future. Despite an improvement in December, natural gas prices remain depressed.

Competition continues to squeeze oilfield-service margins, but activity remains high and labor-intensive. Oil and gas drilling-related employment growth continued to decelerate in November, although growth rates remain high at 6.2 percent and 3.6 percent year over year for extraction and support activity, respectively. Pipeline-transportation employment growth accelerated 2.9 percent. Although pressures have somewhat abated in many oil fields, shortages of skilled labor remain pervasive.

Despite low inventories and very healthy export activity, diesel prices declined along with those of other fuels. Refined product consumption fell in December, in part on seasonality, and remained well below levels in recent years despite year-over-year increases. Gulf Coast refiner margins fell in November but remained seasonally strong. Refiners in the middle of the country continue to enjoy huge margins based on low-cost WTI. Gulf Coast refineries were running near 95 percent of capacity in December, while the East and West coasts have recovered to 80 percent.

Polymer contract prices were largely flat in December, although ethylene and polyethylene prices climbed due to unplanned outages and better-than-expected demand. Margins for U.S. firms remain healthy, with ethane and propane prices near 15-year lows due to large inventories built from shale production. Monthly growth in both the value and tonnage of organic chemicals, plastics and plastic-product exports from the Houston–Galveston customs district picked up the pace entering the fourth quarter and remained at historically high levels.